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UNCLAS SECTION 01 OF 02 RANGOON 000004

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SUBJECT: BURMA'S GARMENT INDUSTRY SEAMS DOOMED

REF: 02 RANGOON 666

¶1. (SBU) Summary: The threat of sanctions, the ongoing consumer boycott, and the GOB's own inane trade and investment policies are decimating the Burmese garment sector. The upcoming elimination of textile quotas in 2005 should put the final nail in the Burmese garment industry's coffin. The regime gains little from the garment industry; trade sanctions now will only give the government cover for its own mistakes. End summary.

U.S. Taste for Burmese Garments Declines

¶2. (SBU) U.S. imports of Burmese garments rose steadily through 2001 when they topped out at $415 million (about 80 percent of Burma's total garment/textile exports). However, thus far for 2002 the numbers tell a very different tale with U.S. garment imports off 30 percent year on year to about $250 million (through October 2002).

¶3. (SBU) What gives? The drop off, according to local industry sources, is due in part to consumer boycotts in the United States which have been steadily eroding demand for the "Made in Myanmar" label. A second, related, reason is the looming threat that the U.S. Congress will impose textile sanctions.

¶4. (SBU) However, there are also production problems here. Foreign investors (primarily from China, Taiwan, and South Korea) flocked to the Burmese garment sector in the 1990s seeking to take advantage of Burma's low cost and placid workforce, and the fact that, because of the small scale of the industry, most of Burma's textile products are allowed quota-free import to the United States (64 percent of Burma's garment exports in 2001 were non-quota items to the United States). However, in 2002, the number of operational foreign-owned garment factories has plummeted as foreign investors and buyers grow increasingly reluctant to sign any long-term deals with Burmese factories because of sanction threats and consumer boycotts, and the impending expiration of the Multi-Fiber Agreement (MFA) on December 31, 2004. With quota considerations no longer constraining choices, most investors have quickly turned their backs on Burma. A capricious and unfriendly business climate has also contributed to this exodus.

Government Gains Minuscule, Workers Need Jobs

¶5. (SBU) Though export numbers, and values, look high, in fact the regime earns very little. We estimate that most garment manufacturers here, 95 percent of which are private, are paid only for "cutting, manufacturing, and packaging" (CMP) services generally worth about 20 percent of each shipment. The GOB then takes about 10 percent of the 20 percent in taxes, as well as some income from the small number of government-owned and joint venture garment factories. Overall, on $200 million in exports to the United States, the government might earn $5 million at most.

¶6. (SBU) The industry does benefit Burmese workers. In this perilous economic period of high inflation and unemployment, the industry supports an estimated 100,000 unskilled workers (who in turn support an estimated 400,000 family members). Though wages are low on a global scale, they are average to above average for Burma -- and often include some minimal health and insurance benefits.

Prospects are Bleak

¶7. (SBU) Burmese industry sources tell us that the drop off of exports to the United States will not likely be replaced by sales elsewhere. Currently, there is no other country or region that comes close to U.S. consumption of Burmese textile exports. Though EU markets may pick up some of the slack, the same consumer boycotts that make exporters wary of the United States are also active there. More importantly, the MFA is a global agreement which will be phased out in Europe as well as the United States after 2005.

¶8. (SBU) In short, garments are a dying industry in Burma. It flourished in the context of quota arrangements, which, for a brief period, overshadowed an atrocious trading and investment climate. With these quotas now being phased out, manufacturers are wisely moving elsewhere.

Comment

¶9. (SBU) In that context, it is really hard to say what impact even a total ban on trade with the United States would have on Burmese garment exports. Such a ban might accelerate the decline of the industry, but it will also give the GOB political cover for short-sighted economic and industrial policies that have scared away investment. They will make for great political theater (both in the United States and here), but their real impact on economic life here and on the regime will be close to negligible. The only ones who will really suffer will be those workers who lose their jobs one year early. And they, unfortunately, will tend to blame the United States rather than their own government. That however is one of the penalties for imposing sanctions on a dying industry. End comment.

Martinez